

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

a. Reporting Entity –

The state government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representative of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are 14 county governments and 351 cities and towns exercising the functions of local governments.

For financial reporting purposes, the Commonwealth of Massachusetts has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 36 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

Blended Component Units – Blended component units are entities which are legally separate from the Commonwealth, but are so related to the Commonwealth that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The following Component Units are blended within the Primary Government:

The Pension Reserves Investment Trust Fund (PRIT) was created in 1984, through General Laws Chapter 661 of the Acts of 1983 as amended by the Acts of 1987. PRIT is the investment portfolio for the assets of member state and local retirement systems. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board.

The Massachusetts State Teachers and Employees Retirement Systems Trust (MASTERS Trust) is a combined investment fund for the State Employees' Annuity Fund and the Teachers' Annuity Fund. The MASTERS Trust was established by the State Treasurer, as Trustee, under a Declaration of Trust dated January 1, 1989, pursuant to authority granted under MGL, Chapter 29, Section 38a.

The Massachusetts State College Building Authority provides dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth. The building authority is governed by a board comprised of members appointed by the Governor.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Blended Component Units (Continued) – The Southeastern Massachusetts University Building Authority provides residence halls and a dining center; it is governed by a nine member board appointed by the Governor.

The University of Massachusetts - Lowell Building Authority provides residence halls and a dining center; it is governed by a nine member board appointed by the Governor.

The University of Massachusetts Building Authority provides dormitories, dining commons and other buildings and structures for the use of the University of Massachusetts and its students and staff; it is governed by a nine member board appointed by the Governor.

The University of Massachusetts Medical School Teaching Hospital Trust Fund accumulates the results from operations of the Teaching Hospital. The Board of Trustees of the University of Massachusetts is the governing body of the Teaching Hospital.

The University of Massachusetts Medical School Group Practice Plan is a trust fund that receives and distributes revenue from medical services to its members. Each member of the clinical faculty of the Medical School is required to be a member of the Group Practice Plan. The Group Practice Plan is governed by a 24 member board of which 23 are appointed by the Governor.

The University of Massachusetts Medical Center Self-Insurance Trust provides professional liability, hospital premises liability and physicians' and surgeons' liability coverage for the Medical Center, the Teaching Hospital and the Group Practice Plan. The Self-Insurance Trust is governed by a 24 member board of which 23 are appointed by the Governor.

Discrete Component Units – Discrete component units are entities which are legally separate from the Commonwealth, but are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Component Units column of the combined financial statements include the financial data of the following entities:

The Massachusetts Bay Transportation Authority (MBTA) operates mass transit facilities within the Greater Boston metropolitan area, which consists of 78 cities and towns. The MBTA is overseen by a seven member board of directors appointed by the Governor. The Commonwealth guarantees the debt of the MBTA and funds deficiencies in the net cost of service.

The Regional Transit Authorities (RTAs) provide railway transportation to areas not serviced by the MBTA. The RTAs are fiscally dependent on the Commonwealth as evidenced from the need for approval by the Secretary of the Executive Office of Transportation and Construction before an RTA can issue bonded debt. In addition, the Commonwealth subsidizes a minimum of 50% of the net cost of service for the RTAs. There are 14 RTAs as follows:

- Berkshire Regional Transit Authority
- Cape Ann Transportation Authority
- Brockton Area Transit Authority
- Cape Cod Regional Transit Authority

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discrete Component Units (Continued) –

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|--|---|
| • Franklin Regional Transit Authority | • Merrimack Valley Regional Transit Authority |
| • Greater Attleboro/Taunton Regional Authority | • Montachusett Regional Transit Authority |
| • Greenfield-Montague Transportation Area | • Pioneer Valley Transit Authority |
| • Lowell Regional Transit Authority | • Southeastern Regional Transit Authority |
| • Martha's Vineyard Transit Authority | • Worcester Regional Transit Authority |

The Massachusetts Water Pollution Abatement Trust (WPAT) provides a combination of federal and Commonwealth funds for water pollution abatement projects. WPAT is governed by a three member board of directors that includes the State Treasurer, Commissioner of the Department of Environmental Protection and the Secretary for Administration and Finance.

The Massachusetts Convention Center Authority (MCCA) manages the operation of the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage. The MCCA is governed by a seven member board of directors which includes the State Treasurer and four appointments made by the Governor. The Commonwealth provides grants to fund annual debt service of the bonds issued and subsidies to fund annual operating deficits.

Economic Development –

The Massachusetts Community Development Finance Corporation (MCDFC) provides community development in economically depressed areas in Massachusetts. The MCDFC is governed by a board of directors comprised of nine members including the Secretary of Manpower Affairs, Secretary of Communities and Development, the Secretary for Administration and Finance and six appointments made by the Governor.

The Bay State Skills Corporation (BSSC) identifies occupations that are in high demand, seeks out educational and training organizations and then funds creative skills training programs. BSSC is governed by a 19 member board of directors including the Secretary of Economic Affairs, Commissioner of Welfare, Chancellor of the Board of Regents, Commissioner for Department of Education, Commissioner for Department of Employment and Training and 14 appointments made by the Governor. The operations are almost entirely funded through Commonwealth grants.

The Massachusetts Industrial Service Program (ISP) provides high risk financing to troubled businesses, assists displaced workers and assists communities to foster economic vitality. ISP has a five member board of trustees including the Secretary of Economic Affairs and the Secretary of Labor and three appointments by the Governor. ISP relies on Commonwealth funding to operate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Economic Development (Continued) – The Massachusetts International Trade Council (MITC) stimulates export development through export assistance programs and promotion of foreign investment in Massachusetts industries. The entity is funded with Commonwealth grants. The governor appoints the 2 member board.

The Government Land Bank (GLB) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, and blighted, decadent or substandard property for the purpose of stimulating economic development and provide housing to low and moderate income persons. The GLB is governed by a board of directors comprised of 10 members including the Commissioner of Administration, the Secretary of Communities and Development and eight appointments made by the Governor. The GLB has access to \$40 million of general obligation bonds and the Commonwealth also provides subsidy assistance. The GLB also requires Commonwealth approval to issue bonded debt.

The Massachusetts Technology Park Corporation (MTPC) manages Massachusetts educational centers that foster economic development within the Commonwealth by providing Massachusetts colleges and universities with access to equipment, machinery and instructional assistance necessary to offer programs in certain emerging areas of science and technology. MTPC is governed by a board of directors comprised of 23 members including the Secretary of Economic Affairs, the Secretary for Administration and Finance, the Chancellor of the Board of Regents and 20 appointments made by the Governor. The Commonwealth provides grants to fund operations.

The Community Economic Development Assistance Corporation (CEDAC) provides development assistance to nonprofit corporations to expand the supply of affordable housing and to foster the revitalization of economically distressed areas. The Governor appoints the 9 member board of directors.

The Massachusetts Corporation for Education Telecommunications (MCET) operates a statewide telecommunication network for the Commonwealth public and private sector to improve the quality of education. MCET is governed by a board of directors comprised of 18 members of which 12 are appointed by the Governor. The Corporation receives grants from the Commonwealth to fund its programs.

The Massachusetts Housing Partnership (MHP) addresses local needs for affordable housing and neighborhood development through group effort of the public and private sectors and state and local government. The entity is governed by a seven member board of directors of which two members are appointed by the Governor, and one member is the Secretary for Administration and Finance and one is the Secretary of Communities and Development. The Commonwealth provides funding to MHP.

The Massachusetts Zoological Corporation manages Franklin Park Zoo and the Walter D. Stone Memorial Zoo. The Corporation's 11 member board is appointed by the Governor. The Commonwealth subsidizes a substantial portion of the operations of the zoos.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Combining Financial Statements – Component units condensed financial statements are included in the component unit column of the general purpose financial statements. Complete financial statements of the individual component units can be obtained directly from their respective administrative offices:

Massachusetts Bay Transportation Authority Ten Park Plaza Boston, MA 02116	Lowell Regional Transit Authority 145 Thorndike Street Lowell, MA 01852	Government Land Bank One Court Street, Suite 200 Boston, MA 02108
Massachusetts Convention Center Authority 900 Boylston Street Boston, MA 02115	Merrimack Valley Regional Transit Authority 85 Railroad Avenue Bradford, MA 01835	Massachusetts Community Development Finance Corporation 10 Post Office Square, Suite 1090 Boston, MA 02109
Berkshire Regional Transit Authority 67 Downing Parkway Pittsfield, MA 01201	Montachusett Regional Transit Authority Rear 1427 Water Street Fitchburg, MA 01420	Massachusetts Corporation for Education Telecommunications 38 Sidney Street Cambridge, MA
Brockton Area Transit Authority 70 School Street Brockton, MA 02401	Pioneer Valley Transit Authority 2808 Main Street Springfield, MA 01107	Massachusetts Housing Partnership 2 Oliver Street Boston, MA 02109
Cape Ann Transportation Authority PO Box 511 Gloucester, MA 01931	Southeastern Regional Transit Authority 25 North Sixth Street New Bedford, MA 02740	Massachusetts Industrial Service Program 100 Cambridge Street, Room 1302 Boston, MA 02202
Cape Cod Regional Transit Authority 585 Main Street, PO Box F Dennis, MA 02638	Martha's Vineyard Transit Authority PO Box 158 Edgartown, MA 02539	Massachusetts International Trade Council, Inc. 100 Cambridge Street, Room 1302 Boston, MA 02202
Franklin Regional Transit Authority 474 Main Street Greenfield, MA 01301	Worcester Regional Transit Authority 287 Grove Street Worcester, MA 01605	Massachusetts Technology Park Corporation 75 North Drive Westborough, MA 01581
Greater Attleboro/Taunton Regional Authority 7 Mill Street Attleboro, MA 02703	Bay State Skills Corporation 101 Summer Street Boston, MA 02100	Water Pollution Abatement Trust Office of the State Treasurer One Ashburton Place, 12th Floor Boston, MA 02108
Greenfield-Montague Transportation 382 Deerfield Street Greenfield, MA 01301	Massachusetts Community Economic Development Assistance Corporation 19 Temple Street Boston, MA 02111	Commonwealth Zoological Corporation 1 Franklin Park Road Boston, MA 02121

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Combining Financial Statements (Continued) – The following organizations do not meet the criteria for inclusion in the reporting entity, and are excluded from the general purpose financial statements: Massachusetts Turnpike Authority, Massachusetts Port Authority, Massachusetts Water Resources Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority, Massachusetts Technology Development Corporation and Massachusetts Industrial Finance Agency. Subsequent to June 30, 1995, the Commonwealth enacted legislation that among other things guarantees certain bond and notes of the Massachusetts Turnpike Authority. The Massachusetts Turnpike Authority will meet the criteria for a discretely presented component unit in fiscal year 1996.

b. Fund Accounting –

The Commonwealth reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Account groups are accounting entities used to provide accountability for the Commonwealth's general fixed assets and general long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

The Commonwealth has established the following fund categories (further divided by fund types), and account groups:

Governmental Funds – account for the general governmental activities of the Commonwealth.

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

Capital Projects Funds are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general and specific obligation bonds and federal reimbursements.

Proprietary Funds – account for the Commonwealth's ongoing activities that are similar to those often found in the private sector.

Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds – are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds are used to account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds are used to account for trusts whose principal cannot be spent.

Pension Trust Funds are used to account for the assets, liabilities and fund equities held in trust for the State Employees' and Teachers' Retirement Systems.

Agency Funds are used to account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

University and College Fund – is used to account for the activities specific to the operation of the Commonwealth's public institutions of higher education, including its medical school.

Current Funds are comprised of unrestricted funds which may be used at the discretion of the individual institution's governing bodies and restricted funds which must be utilized for specific purposes established by others.

Loan funds account for resources available to make loans to students, faculty and staff.

Endowment and Similar Funds are comparable to trust funds, and they must be administered according to the terms of specific agreements.

Plant Funds are used to account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

Account Groups – establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group is used to account for general fixed assets of the Commonwealth, excluding the fixed assets of the Proprietary Funds, University and College Fund and the discretely presented Component Units.

The General Long-term Obligations Account Group is used to account for long-term bonds and notes issued by the Commonwealth, capital leases, certificates of participation, unpaid pension costs, compensated absences, and other long-term obligations, excluding the liabilities of the University and College Fund, the discretely presented Component Units and the Proprietary Service Funds.

Component Units- account for the activity of the entities that are separate from the primary government but are financially accountable to the Commonwealth. The Component Units are discretely presented in the general purpose financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Measurement Focus and Basis of Accounting –

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. “Available” means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Proprietary Funds, Component Units, Nonexpendable Trust and Pension Trust Funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds and component units that use proprietary fund accounting, the Commonwealth applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the hospital and group practice plan.

Statutory (Budgetary) Accounting – The Commonwealth’s books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth’s legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, and the Statutory Basis Financial Report is not intended to present the Commonwealth’s financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred, and amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Cash and Short-Term Investments and Investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. There are instances where a fund with a cash deficit will borrow from another fund. These interfund borrowings are reported as "Due from other funds" and "Due to other funds" on the balance sheet. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

The Pension Trust Funds, with investments totaling \$13,054,318,000, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. Equity securities of the Pension Trust Funds and deferred compensation plan investments are stated at market. The Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentrations of credit risk exist if a number of companies in which the Fund has invested, are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 1995, the estimated values, determined by management with input from the investment managers, of these real estate and alternative investments were \$75,000,000 in the MASTERS Trust and \$985,000,000 in PRIT, representing 0.4% and 4.9%, respectively, of the total assets of the Fiduciary Fund Type.

Included in the discretely presented Component Units is \$9,159,274 in investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at the lower-of-cost or market (except for debt instruments to be held to maturity which are carried at amortized cost). Other investments are stated at cost or amortized cost.

Annuity contracts represent guaranteed investment contracts and are carried at present value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Securities Lending Program –

The Pension Trust Funds participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow from certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the market value of the security borrowed. At June 30, 1995, the market value of the securities on loan with PRIT was approximately \$510,000,000. The value of the collateral amounted to \$524,000,000 at June 30, 1995.

f. Receivables –

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as “Due from federal government.” The receivables in the University and College Fund and Component Units column are amounts that have arisen in the normal course of operations.

g. Inventories and Other Assets -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements and therefore are not recorded.

Inventories included within the University and College Fund and the Component Unit column are stated at the lower of cost, using the first-in, first-out method, or market (on the purchase or consumption method).

h. Fixed Assets -

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

The Commonwealth capitalizes all land. It capitalizes buildings, equipment, and computer software, with costs in excess of \$15,000 at the date of acquisition and with expected useful lives of greater than one year. Interest incurred during construction is not material and it is not capitalized. Public domain general fixed assets or Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) are not capitalized. No depreciation is provided on general fixed assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Fixed Assets (Continued)-

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. All land and library collections are capitalized. The University of Massachusetts and state colleges capitalize all other fixed assets with costs in excess of \$1,000. The community colleges capitalize all other fixed assets with costs in excess of \$15,000 consistent with the Commonwealth's fixed asset policy. No provision for depreciation is recognized except for depreciation recorded on the University of Massachusetts Medical School Teaching Hospital and Group Practice Plan fixed assets, which is recorded on a straight-line basis over the estimated useful lives of the assets.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements	3 – 100 years
Equipment, furniture, fixtures and vehicles	3 – 25 years

i. Interfund/Intrafund Transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

Receivables and payables resulting from transactions between Component Units and the primary government are classified as "Due to/from primary government" or "Due to/from Component Units."

j. Fringe Benefit Cost Recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees' group health insurance is accounted for through the Internal Service Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. School Construction Grants -

The Commonwealth through legislation is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. The amounts expected to be liquidated with available financial resources are reported as expenditures in fund liabilities. The long-term portion of this liability is recorded in the General Long-Term Obligations Account Group.

l. Compensated Absences -

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rate of pay.

In the University and College Funds and the discretely presented Component Units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

m. Lottery Revenue and Prizes -

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

n. Risk Financing -

The Commonwealth does not insure for Commonwealth employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For Commonwealth employees workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration and another program for individuals working on the Central Artery/Third Harbor Tunnel Project managed by the Massachusetts Highway Department. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

The Commonwealth accounts for workers' compensation and group insurance risk financing activities in the Internal Service Funds. Revenues are charged to other funds as reimbursement for expenditures related to claims and judgments. Other risk financing activities are accounted for in the General Fund.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Total Columns – Memorandum Only –

Total columns on the combined financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations or cash flows. Interfund eliminations have not been made in the aggregation of this data.

p. Reclassifications –

For the fiscal year ended June 30, 1995, certain reclassifications have been made to the 1994 balances to conform to the presentation used in 1995.

The separately issued Component Units financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

q. Future Adoption of Accounting Pronouncements –

The GASB has issued the following statements which the Commonwealth has not yet adopted and which require adoption subsequent to June 30, 1995:

Adoption required <u>Statement No.</u>		<u>in fiscal year</u>
24	Accounting and Reporting for Certain Grants and Other Financial Assistance	1996
25	Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans	1996
26	Financial Reporting for Postretirement Healthcare Plans administered by Defined Benefit Pension Plans	1996
27	Accounting for Pensions by State and Local Governmental Employers	1997
28	Accounting and Financial Reporting for Securities Lending Transactions	1997
29	The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities	1996

The implication of these statements to the Commonwealth’s fiscal practices and financial reports is being evaluated.

2. BUDGETARY CONTROL

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies, at the individual appropriation account level, in an annual appropriation act.

For fiscal year 1995, the Legislature included in the general appropriation act a revenue budget to show the estimates of amounts expected to be available to finance appropriated expenditures.

Before signing the appropriation act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriation may be made via supplemental appropriation acts or other legislative acts. These also must be approved by the Legislature and signed by the Governor and are subject to line item veto.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior fiscal year be carried forward and made available for current spending. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Certain interfund assessments to allocate fringe benefits and other costs are mandated by state finance law but not itemized in the appropriation process or separately budgeted. In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, to withhold allotment of appropriated funds, effectively reducing the account's expenditure budget, upon determination that available revenues will be insufficient to meet authorized expenditures.

The original fiscal year 1995 Appropriation Act authorized approximately \$15,403,812,000 in direct appropriations, \$699,164,000 in authorizations to retain and expend certain non-tax revenues and \$105,755,000 of interagency chargebacks. The act also included estimates of \$11,301,100,000 in tax revenues and approximately \$4,995,921,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$16,297,021,000, and with unreserved balances on a statutory basis of approximately \$127,068,000 carried forward from fiscal year 1994, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1995, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These amounts added approximately \$442,374,000 in direct appropriations, \$1,543,000 in additional retained revenue authorizations, and \$4,849,000 of inter-agency chargebacks.

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2. BUDGETARY CONTROL (CONTINUED)

Subsequent to June 30, 1995, the Legislature passed and the Governor signed, with modification through veto, approximately \$46,131,000 in additional supplemental appropriations relating to fiscal year 1995 cumulative. These actions raised to approximately \$16,703,628,000 the total of appropriations, retained revenue authorizations, and interagency chargebacks. Appropriations continued from fiscal year 1994 totaled approximately \$74,245,000, and certain intrafund and interfund transfers and expenditures, directed by statute, totaled approximately \$351,481,000.

Because revenue budgets are not updated subsequent to the original appropriations act, the comparisons of the initial budgeted revenue to the subsequent, and often modified, expenditure budget can be misleading. Also, the financial statements portray fund accounting with gross inflows and outflows, thus creating a second variance, to separately published budget documents, portraying net inflows and outflows.

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Statutory Basis – Budget and Actual – General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds itemized in the CAFR are the Highway, Local Aid, Commonwealth Stabilization, Environmental, Administrative Control, and under the label of Other, all remaining budgeted funds.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the State Accounting System, Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account total available spending authorization.

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual line item appropriation account level, which is the legal level of budgetary control. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

2. BUDGETARY CONTROL (CONTINUED)

A reconciliation of the statutory basis General and budgeted Special Revenue funds to the GAAP basis General and all Special Revenue funds presented in the financial statements is as follows (amounts in thousands):

	General	Special Revenue
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis)	\$ 462,652	\$ (325,964)
Entity differences:		
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses for:		
Non-budgeted Special Revenue Funds		7,668
Perspective differences:		
Certain activities treated as Special Revenue:		
Funds for statutory and as part of the General Fund for GAAP	79,425	(79,425)
Implementation of GASB 10	(78,437)	(12,643)
Basis of Accounting differences:		
Net increase in taxes receivable	59,957	46,242
Net increase/(decrease) in due from federal government	(92,536)	(33)
Net increase/(decrease) in other receivables and other assets	(17,632)	22,438
Net increase in tax refunds and abatements payable	(6,322)	(10,954)
Net (increase)/decrease in accounts payable and other liabilities	<u>412,885</u>	<u>(191,406)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 819,992</u>	<u>\$ (544,077)</u>

3. DEPOSITS AND INVESTMENTS

Cash and Short-Term Investments – The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

As of June 30, 1995, the carrying amount of the Primary Government's total cash and cash equivalents was \$649,647,000 and the corresponding bank balances were \$671,004,000. Bank deposits in the amount of \$12,692,000 were insured by the Federal Deposit Insurance Corporation, and \$658,312,000 were uninsured and uncollateralized.

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3. DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and Short-Term Investments (Continued) – As of June 30, 1995, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was \$46,672,000, and the corresponding bank balances were \$45,111,000. Bank deposits of \$4,005,000 were insured by the Federal Deposit Insurance Corporation and \$41,107,000 were uninsured and uncollateralized.

Investments – The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

- | | |
|-------------|---|
| Category 1: | Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name. |
| Category 2: | Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name. |
| Category 3: | Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name. |

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Primary Government – Investments of the Primary Government at June 30, 1995, are as follows (amounts in thousands):

	Carrying Amount			Total	Market Value
	Category 1	Category 2	Category 3		
INVESTMENT					
Repurchase agreements	\$ 242,634	\$ 247	\$ 1,583	\$ 244,464	\$ 249,079
U.S. Treasury obligations	839,319	8,471		847,790	842,789
Commercial paper	695,389			695,389	695,389
Government obligations	2,420,550	128,375	9,298	2,558,223	2,557,618
Equity securities	7,595,105	18,726	717	7,614,548	7,616,034
Fixed income securities	1,636,622	80,556		1,717,178	1,720,549
Asset backed investments		11,757		11,757	11,263
Notes		3,550		3,550	3,550
Other	<u>151,324</u>	<u>31,015</u>	<u>152,612</u>	<u>334,951</u>	<u>334,728</u>
	<u>\$13,580,943</u>	<u>\$282,697</u>	<u>\$164,210</u>	14,027,850	14,030,999
Money market investments				837,362	837,362
Mutual fund investments				57,478	57,478
Deferred compensation plan mutual funds				1,215,348	1,215,348
Annuity contracts				1,097,652	1,097,652
Real estate				446,192	446,192
Assets held in trust				1,691,484	1,691,484
Deposits with U.S. Treasury				385,605	385,605
Other				<u>614,249</u>	<u>614,249</u>
Total				<u>\$20,373,220</u>	<u>\$20,376,369</u>

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3. DEPOSITS AND INVESTMENTS (CONTINUED)

Primary Government (Continued) – Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above	\$20,373,220
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	2,043,176
Restrictive investments reported separately in the combined balance sheet	162,391
Deferred compensation plan mutual funds reported separately in the combined balance sheet	1,215,348
Assets held in trust reported separately in the combined balance sheet	1,691,484
Annuity contracts reported separately in the combined balance sheet	1,097,652
Deposits reported separately in the combined balance sheet	<u>385,605</u>
Investments as reported on the combined balance sheet	<u>\$13,777,564</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1995 (amounts in thousands):

Carrying amount of cash and cash equivalents	\$ 471,247
Cash with fiscal agent	89,200
Short-term investments	<u>2,043,176</u>
Cash and short-term investments as reported on the combined balance sheet	<u>\$ 2,603,623</u>

Financial Investments with Off-Balance Sheet Risk – There are certain investments of the Commonwealth which may involve a degree of risk not accounted for on the respective financial statements. A description of such “off-balance sheet risks” is as follows:

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Forward Currency Contracts – The Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. Risks may arise upon entering these contracts from the potential inability of counterparts to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

When the contract is closed, the Trusts record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

Fluctuations in the value of forward currency contracts are recorded as unrealized gains or losses by the Trusts.

Future Contracts – The Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT or Masters may not be able to close out its futures positions due to an a non-liquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Trusts may also invest in financial futures contracts for non-hedging purposes.

Payments are made or received by the Trusts each day, depending on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. When the contracts are closed, the Trusts recognize a realized gain or loss. The notional value of the futures contracts at June 30, 1995 for the Trusts amount to approximately \$125,000,000 with unrealized losses of approximately \$315,000.

Options – PRIT and Masters are also engaged in selling or “writing” options. The trust, as a writer of an option, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 1995, there were no material options outstanding.

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3. DEPOSITS AND INVESTMENTS (CONTINUED)

Component Units – Investments of the discretely presented Component Units at June 30, 1995, are as follows (amounts in thousands):

	Carrying Amount			Total	Market Value
	Category 1	Category 2	Category 3		
INVESTMENT					
Repurchase agreements	\$ 2,652	\$ 0	\$ 49,810	\$ 52,462	\$ 52,650
U.S. Treasury obligations	72,893	11,607	306	84,806	84,861
Commercial paper	85,040			85,040	85,040
Government obligations			53,190	53,190	54,292
Equity securities			300	300	300
Notes	4,451		6,823	11,274	11,242
Other	<u>1,954</u>	<u>1,975</u>	<u>14,428</u>	<u>18,357</u>	<u>18,359</u>
	<u>\$ 166,990</u>	<u>\$ 13,582</u>	<u>\$ 124,857</u>	305,429	306,744
 Money market investments				21,276	21,276
Mutual fund investments				78	78
Deferred compensation plan mutual funds				11	11
Cash on deposit with insurance carriers				747	747
Guaranteed investment contracts				<u>270,636</u>	<u>270,636</u>
 Total				<u>\$598,177</u>	<u>\$599,492</u>

Following is a reconciliation of investments summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above	\$598,177
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	306,290
Restricted investments reported separately in the combined balance sheet	<u>29,433</u>
Investments as reported on the combined balance sheet	<u>\$ 262,454</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1995 (amounts in thousands):

Carrying amount of cash and cash equivalents	\$ 46,672
Short-term investments	<u>306,290</u>
Cash and short-term investments as reported on the combined balance sheet	<u>\$ 352,962</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

4. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

Primary Government –

	Taxes	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
General Fund	\$ 987,286	\$ 504,506	\$ 0	\$ 902,062	\$ (1,038,804)	\$ 1,355,050
Special Revenue Funds	688,026	149,944		124,853	(230,111)	732,712
Capital Projects Funds		121,584		903	(32)	122,455
Trust and Agency	359,768	4,105	7,794	566,918	(348,748)	589,837
University and College Fund		<u>9,024</u>	<u>52,776</u>	<u>139,731</u>	<u>(28,922)</u>	<u>172,609</u>
Subtotal	2,035,080	789,163	60,570	1,734,467		2,972,663
Less: Allowance for uncollectibles	<u>(571,633)</u>	<u>(11,917)</u>	<u>(5,239)</u>	<u>(1,057,828)</u>	<u>\$ (1,646,617)</u>	
Net receivable	<u>\$ 1,463,447</u>	<u>\$ 777,246</u>	<u>\$ 55,331</u>	<u>\$ 676,639</u>		<u>\$ 2,972,663</u>

Component Units –

	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
MBTA	\$ 6,600	\$ 0	\$ 29,591	\$ 0	\$ 36,191
Regional Transit Authorities	4,315		5,066	(36)	9,345
WPAT	33,287	573,860	9,842		616,989
MCCA			480	(63)	417
Economic Development	<u>20,237</u>	<u>109,067</u>	<u>2,902</u>	<u>(4,531)</u>	<u>127,675</u>
Subtotal	64,439	682,927	47,881	(4,630)	790,617
Less: Allowance for uncollectibles		<u>(4,531)</u>	<u>(99)</u>	<u>\$ (4,630)</u>	
Net receivable	<u>\$ 64,439</u>	<u>\$ 678,396</u>	<u>\$ 47,782</u>		<u>\$ 790,617</u>

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5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Receivables and payables between funds and component units at June 30, 1995 are summarized as follows (amounts in thousands):

	Due from	Due to
General Fund:		
Special Revenue Funds:		
Federal grants	\$ 4,068	\$ 0
Local aid	10,400	
Capital Projects Funds:		
General	49,033	
Highway	131,085	
Local Aid	41,855	
Other	489	
Component Unit:		
MBTA		33,906
RTA		30,199
MCCA		13,516
Economic Development Authorities		4,214
Trust and Agency Funds:		
Pension Trust	2,830	
University and College Fund:		
Current - Unrestricted	<u>6,442</u>	<u> </u>
Subtotal	<u>246,202</u>	<u>81,835</u>
Special Revenue Funds:		
General Fund		14,468
Component Units:		
MBTA		255,245
RTA	<u> </u>	<u>23,139</u>
Subtotal	<u> </u>	<u>292,852</u>
Capital Projects Funds:		
General Fund		222,462
Capital Projects Funds:		
Highway	22,975	
Federal Highway Construction		22,975
Component Units:		
Economic Development Authorities		32
WPAT	<u> </u>	<u>6,526</u>
Subtotal	<u>22,975</u>	<u>251,995</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS (CONTINUED)

	Due from	Due to
Internal Service Funds:		
University and College Funds:		
Current and unrestricted	<u>28,367</u>	<u> </u>
Subtotal	<u>28,367</u>	<u> </u>
Fiduciary Funds:		
General Funds	<u> </u>	<u>2,830</u>
Subtotal	<u> </u>	<u>2,830</u>
University and College Fund:		
General Fund		6,442
Internal Services Funds:		
Employees workers' compensation		28,367
University and College Fund:		
Current - unrestricted	1,232	33,315
Current - restricted	32,460	
Loan	220	
Endowment		180
Plant	<u>489</u>	<u>906</u>
Subtotal	<u>34,401</u>	<u>69,210</u>
Component Units:		
General Fund	81,835	
Special Revenue Funds:		
Federal Grants		
Highway Fund	92,795	
Local Aid	185,589	
Capital Projects Funds:		
General	32	
Local Aid	<u>6,526</u>	<u> </u>
Subtotal	<u>366,777</u>	<u> </u>
TOTAL	<u>\$ 698,722</u>	<u>\$ 698,722</u>

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6. FIXED ASSETS

Primary Government-

General Fixed Asset Account Group – Changes in general fixed assets by category at June 30, 1995 are as follows (amounts in thousands):

	Balance at June 30, 1994	Additions and Adjustments	Retirements and Adjustments	Balance at June 30, 1995
Land	\$ 455,089	\$ 24,559	\$ 3,281	\$ 476,367
Buildings	2,224,052	75,302	17,922	2,281,432
Machinery and equipment	369,383	91,157	34,038	426,502
Construction in progress	<u>18,158</u>	<u>14,864</u>	<u>14,795</u>	<u>18,227</u>
Total	<u>\$ 3,066,682</u>	<u>\$ 205,882</u>	<u>\$ 70,036</u>	<u>\$ 3,202,528</u>

College and University Fund Type – Fixed assets consist of the following at June 30, 1995 (amounts in thousands):

Land	\$ 40,696
Buildings	1,614,312
Machinery and equipment	541,996
Construction in progress	<u>5,640</u>
	2,202,644
Less: accumulated depreciation (hospital and group practice plan)	<u>124,214</u>
Total	<u>\$ 2,078,430</u>

6. FIXED ASSETS (CONTINUED)

Component Units – Fixed assets reported in the Commonwealth's Component Units consist of the following at June 30, 1995 (amounts in thousands):

	Amount
Land and improvements	\$ 245,355
Structures and improvements	4,246,946
Equipment, furniture, fixtures and vehicles	<u>1,673,921</u>
Total	6,166,222
Less accumulated depreciation	<u>1,541,281</u>
Net fixed assets	4,624,941
Property held for expansion	7,439
Construction in progress	<u>530,398</u>
Total	<u>\$5,162,778</u>

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Primary Government -

Section 47 of Chapter 29 of the Massachusetts General Laws authorizes the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

General Fund – As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to finance working capital advances to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1995, totaled \$240,000,000, with an interest rate of 4.25% and a yield of 3.45% and mature in June 1996.

The balance of revenue anticipation notes (RANs) fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1995, there were no RANs issued and outstanding.

Capital Projects Funds – The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1995, there were no minibonds outstanding.

The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. There were no such notes outstanding at June 30, 1995. Subsequent to year end, in October 1995, \$190,000,000 BANs were issued; as of the date of this report, \$98,000,000 remains outstanding.

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7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS (CONTINUED)

Letter-of-Credit Agreements – During fiscal year 1995, the Commonwealth maintained letter-of-credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$400,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1995, or subsequent thereto. These agreements expire September 30, 1996 through October 29, 1996. The average costs are approximately 0.085 % on unutilized amounts and approximately 0.12% on utilized amounts.

Line-of-Credit Agreement – During fiscal year 1995, the Commonwealth maintained a line of credit with a bank to provide liquidity support for up to \$200,000,000 of commercial paper notes, which line of credit expires September 30, 1996. The average costs of all lines of credit are approximately 0.6% on unutilized amounts and approximately 0.085% on utilized amounts.

Component Units -

MBTA short-term notes payable outstanding at June 30, 1995 totaled \$345,000,000. Of this amount, \$180,000,000 are due September 8, 1995 with an interest rate of 5.0% and \$165,000,000 mature March 1, 1996 with an interest rate of 5.5%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1995, \$107,705,000 of this commercial paper was outstanding.

Subsequent to June 30, 1995, The Massachusetts Bay Transportation Authority issued \$180,000,000 of revenue anticipation notes carrying an interest rate of 5.0%. The notes mature on September 30, 1998.

The RTAs had the following short-term notes payable outstanding at June 30, 1995: Pioneer Valley \$12,000,000, Merrimack Valley \$7,004,000, Southeast Regional \$6,000,000; Worcester Regional \$12,460,000; Brockton Area \$7,800,000; Montachusett \$7,300,000; Lowell \$4,400,000; all other regional transit authorities \$11,391,000. All notes mature during fiscal year 1996 and have interest rates ranging from 2.62% to 4.50%.

Subsequent to June 30, 1995, Brockton Area Transit Authority rolled over \$7,000,000 of revenue anticipation notes carrying an interest rate of 4.4% due July 1996; Lowell Regional Transit Authority rolled over \$4,250,000 of revenue anticipation notes with 4.10% due July 1996. Other regional transit authorities rolled over \$3,900,000 of operating assistance notes at 4.0-5.0%; all due in 1996.

8. LONG-TERM DEBT

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, or in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (b) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 1995, the Commonwealth had three types of bonds outstanding: general obligation, dedicated income tax and, special obligation. The general obligation bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

The dedicated income tax bonds relate entirely to the deficit financing authorization of fiscal year 1990. As a remedy to that financial situation, the Legislature authorized bonds, to be repaid from tax revenues within seven years.

The Commonwealth also issues special obligation revenue bonds as authorized under Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 1995, the Commonwealth had outstanding \$394,700,000 of such bonds, secured by a pledge of 6.86 cents of the 21 cent per gallon motor fuel excise tax collected on gasoline.

For financial reporting purposes, long-term bonds are carried at their face amount, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid; for capital appreciation bonds, it represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding as its face amount.

The amount of bonds authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

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8. LONG-TERM DEBT (CONTINUED)

General obligation, dedicated income tax and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1995, are as follows (amounts in thousands):

Purpose	Outstanding Amount	Maturities	Authorized - Unissued
Deficit reduction: Fiscal recovery	<u>\$ 618,980</u>	1995-1998	<u>\$ 57,274</u>
Capital projects:			
General	6,218,311	1995-2025	2,403,124
Highway	1,846,877	1995-2016	2,409,675
Local aid	862,706	1995-2015	1,050,535
Other	<u>81,592</u>	1995-2025	<u>22,199</u>
Capital projects debt	<u>9,009,486</u>		<u>5,885,533</u>
Total	<u>\$9,628,466</u>		<u>\$5,942,807</u>

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1995 ranged from 0.10% to 14.25%.

Changes in long-term bonds outstanding (including discount and issuance costs) and bonds authorized -unissued for the year ended June 30, 1995, are as follows (amounts in thousands):

	Bonds Outstanding	Authorized - Unissued
Balance, July 1, 1994	\$9,427,745	\$4,512,297
General and special obligation bonds:		
Principal less discount and issuance costs	809,862	(809,862)
Discount and issuance costs	15,139	
General obligation refunding bonds	499,095	
Bonds retired (excluding minibonds)	(646,280)	
Refunded bonds	(477,095)	
Increase in bonds authorized		2,252,288
Expiration of authorizations		<u>(11,916)</u>
Balance, June 30, 1995	<u>\$9,628,466</u>	<u>\$5,942,807</u>

8. LONG-TERM DEBT (CONTINUED)

At June 30, 1995, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

Year Ending June 30	Principal	Interest	Total
1996	\$ 684,266	\$ 488,605	\$ 1,172,871
1997	719,135	460,173	1,179,308
1998	641,621	412,171	1,053,792
1999	569,942	377,398	947,340
2000	588,664	344,117	932,781
2001 and thereafter	<u>6,424,838</u>	<u>2,135,158</u>	<u>8,559,996</u>
 Total	 <u>\$9,628,466</u>	 <u>\$4,217,622</u>	 <u>\$13,846,088</u>

Subsequent to June 30, 1995, the Commonwealth issued \$26,100,000 in general obligation bonds , with variable interest rates, \$200,000,000 in general obligation bonds, with interest rates ranging from 4% to 5.625%, and \$250,000,000 in general obligation bonds with an interest rate of 5.125%.

Statutory Debt Limit – In fiscal year 1990, Massachusetts General Laws were amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth’s ability to issue direct debt, this limit provides a control on annual capital spending. The first-year limit was \$6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The statutory debt limit for fiscal year 1995 was \$8,265,443,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes bond anticipation notes and discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, special obligation bonds, refunded bonds, and certain refunding bonds. Outstanding direct debt, as defined, totaled approximately \$7,625,462,000 at June 30, 1995.

Variable Rate Bonds In 1990, the Commonwealth issued \$1,339,100,000 in debt to finance the state’s accumulated operating deficits. Some \$380,100,000 of that debt was issued as variable rate debt, of which \$148,700,000 was outstanding on June 30, 1995. Payment of the principal and interest on the variable rate bonds is guaranteed through letters of credit entered into between the Commonwealth and certain banks. To limit its exposure to the fluctuating interest rates on the variable rate debt, the Commonwealth entered into interest rate swap agreements with two investment banking firms. Under these agreements, the Commonwealth receives payments from the firms approximately equal to the variable interest rate paid by the Commonwealth on the bonds, and, in return, makes fixed payments to the firms. The fixed payments made by the Commonwealth are equivalent to fixed interest rates of 6.225% on \$23,700,000 of the outstanding bonds, 6.7895% on \$75,000,000 of the bonds and 6.839% on the remaining \$50,000,000 of bonds.

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8. LONG-TERM DEBT (CONTINUED)

Advance Refundings and Defeased Bonds – As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$499,095,000 of general obligation refunding bonds during fiscal year 1995. Proceeds totaling approximately \$513,622,000 were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$33,255,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$21,090,000. At June 30, 1995, approximately \$477,095,000 of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1995, approximately \$2,106,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Changes in General Long-term Obligations – The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 12), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools (Note 1), compensated absences (Note 1), unfunded pension costs (Note 10).

8. LONG-TERM DEBT (CONTINUED)

General Long Term Debt Obligations Account Group – During the year ended June 30, 1995, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Long-term Bonds	Capital Leases	School Construction Grants	Compensated Absences
Balance, July 1, 1994	\$9,427,745	\$ 50,954	\$2,070,709	\$ 81,823
Bond issuances	1,308,957			
Bond discount	15,139			
Bond principal payments (excluding minibonds)	(1,123,375)			
Excess of total pension contributions made over total contributions required				
Balance to internal service fund				
Net increase (decrease)	<u> </u>	<u>1,303</u>	<u>545,320</u>	<u>9,488</u>
Balance, June 30, 1995	<u>\$9,628,466</u>	<u>\$ 52,257</u>	<u>\$2,616,029</u>	<u>\$91,311</u>

(Continued):

	Unfunded Pension Costs	Claims, Judgments, and Other	Total
Balance, July 1, 1994	\$2,579,432	\$ 435,595	\$ 14,646,258
Bond issuances			1,308,957
Bond discount			15,139
Bond principal payments (excluding minibonds)			(1,123,375)
Excess of total pension contributions made over total contributions required	(145,183)		(145,183)
Balance to internal service fund		(341,620)	(341,620)
Net increase (decrease)	<u> </u>	<u>(31,629)</u>	<u>524,482</u>
Balance, June 30, 1995	<u>\$2,434,249</u>	<u>\$ 62,346</u>	<u>\$14,884,658</u>

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8. LONG-TERM DEBT (CONTINUED)

University and College Fund – Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$182,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts has also entered into various loan agreements as a participant in the Massachusetts Health and Educational Facilities Authority's ongoing capital asset program to finance construction projects and equipment.

University and College Fund long-term debt outstanding at June 30, 1995 was as follows (amounts in thousands):

Purpose	Interest Rates	Amount	Maturity Dates
MHEFA capital asset program	Variable	\$ 28,891	1995-2023
Building authorities	3.0% - 9.2%	<u>255,424</u>	1995-2017
		<u>\$ 284,315</u>	

Maturities of principal are as follows (amounts in thousands):

Years Ending June 30	Amount
1996	\$ 8,815
1997	9,885
1998	10,870
1999	11,815
2000	12,540
2001 and thereafter	<u>230,390</u>
Total	<u>\$ 284,315</u>

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

	Amount
Balance, July 1, 1994	\$ 248,246
Principal less issuance and discount cost	51,363
Principal issuance of refunding bonds	148,925
Bonds retired, net of amortization of discount	<u>(164,219)</u>
Balance, June 30, 1995	<u>\$ 284,315</u>

8. LONG-TERM DEBT (CONTINUED)

University and College Fund (Continued) –

The University of Massachusetts acquired a telecommunications system through debt financed through certificates of participation which bear interest at an average rate of 7.38% and mature in varying semi-annual installments through fiscal year 2000. Lease payments are funded from UMass student fees and approximate the trustee's payments to certificate holders.

Changes in non-cancelable certificates of participation for the University and College Fund Type are as follows (amounts in thousands):

Years Ending June 30	Amount
1996	\$ 2,670
1997	2,671
1998	2,668
1999	2,671
2000	<u>2,673</u>
Total payments	13,353
Less: Amount representing interest	<u>(2,418)</u>
Present value of debt financed	<u>\$ 10,935</u>

In prior years, the University and College Fund building authorities advanced refunded certain bonds through the issuance of \$148,925,000 of refunding bonds during fiscal 1995. The proceeds were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. Accordingly, the trust account asset and liability for the defeased bonds are not included in the accompanying financial statements. As a result of these advance refundings, the authorities decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$19,528,000 over the next twenty-one years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$9,866,000. AT June 30, 1995, approximately \$172,343,000 outstanding of bonds from prior advance refunding of the University and College Fund building authorities are considered defeased.

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8. LONG-TERM DEBT (CONTINUED)

Component Units –

Bonds and notes outstanding at June 30, 1995, net of unamortized discount of \$18,844,000 and unamortized deferred loss on refunding of \$128,995,000 are as follows (amounts in thousands):

MBTA:			
General transportation system	3.83% - 7.45%	\$ 2,252,563	2005 - 2025
Boston Metropolitan District	4.48 - 7.10	47,685	2002 - 2025
RTAs:			
Transportation bonds		30	1995 - 1997
MCCA:			
Current interest serial bonds	3.45 - 6.00	114,818	1996 - 2008
Compound interest serial bonds	5.375 - 6.80	58,224	2000 - 2013
WPAT:			
Serial bonds	2.00 - 6.25	333,610	1995 - 2015
Term bonds	5.25 - 6.375	110,725	2013 - 2015
Economic Development:			
Notes payable	4.71 - 9.11	<u>41,428</u>	1996 - 2002
Total		<u>\$ 2,959,083</u>	

Maturities of principal are as follows (amounts in thousands):

Years Ending June 30	MBTA	RTAs	WPAT	MCCA	Development	Total
1996	\$ 72,364	\$ 15	\$ 16,920	\$ 18,105	\$ 6,577	\$ 113,981
1997	77,369	15	17,160	19,105	7,345	120,994
1998	80,902		17,615	20,195	8,014	126,726
1999	84,089		18,380	21,375	6,552	130,396
2000	87,402		19,220	22,670	7,266	136,558
2001 and thereafter	<u>2,045,341</u>	<u> </u>	<u>355,040</u>	<u>72,212</u>	<u>5,674</u>	<u>2,478,267</u>
Total	<u>\$2,447,467</u>	<u>\$ 30</u>	<u>\$ 444,335</u>	<u>\$ 173,662</u>	<u>\$ 41,428</u>	<u>\$3,106,922</u>

The amounts above represent the face amount of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

8. LONG-TERM DEBT (CONTINUED)

Component Units (Continued) –

During the fiscal year ended June 30, 1995, the following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

	MBTA	RTAs	WPAT	MCCA	Economic Development	Total
Balance, July 1, 1994	\$ 2,074,440	\$ 45	\$ 319,535	\$ 190,238	\$ 17,248	\$ 2,601,506
Principal less discount issuance costs	288,110		139,835		26,089	454,034
Debt retired, net of amortization of discount	(54,208)	(15)	(15,035)	(17,196)	(1,909)	(88,363)
Deferred loss on refunding	<u>(8,094)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,094)</u>
Balance, June 30, 1995	<u>\$ 2,300,248</u>	<u>\$ 30</u>	<u>\$ 444,335</u>	<u>\$ 173,042</u>	<u>\$ 41,428</u>	<u>\$ 2,959,083</u>

The MBTA issued certificates of participation in the amounts of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreement, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 6.3% to 7.8% and mature as follows (amounts in thousands):

Year Ending June 30	Amount
1996	\$ 1,150
1997	1,150
1998	1,150
1999	1,150
2000	1,150
2001 and thereafter	<u>15,915</u>
Total	<u>\$21,665</u>

In prior years, the Massachusetts Bay Transportation Authority defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. These payments began in 1995. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1995, \$1,169,430,000 of these bonds outstanding are considered defeased.

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8. LONG-TERM DEBT (CONTINUED)

Component Units (Continued) – The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

On February 22, 1995, Pioneer Valley Transit Authority (PVRTA) issued certification of participation of \$9,930,000 to finance the purchase of buses. Under the terms of the agreement, PVRTA is obligated to make annual payments on the certificates subject to the Commonwealth's appropriating the necessary funds in the Authority's annual budget. The certificates bear the interest rate at rates ranging from 5% to 5.7% and mature as follows:

Year Ending June 30

1996	\$ 1,245
1997	1,245
1998	1,240
1999	1,240
2000	1,240
Thereafter	<u>3,720</u>
Total	<u>\$9,930</u>

The legislation which authorizes the issuance of Massachusetts Convention Center Authority debt provides for participation by the Commonwealth in the full payment of the annual debt service costs.

9. INDIVIDUAL FUND DEFICITS:

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 1995, as follows (amounts in thousands):

Fund	Amount
General	\$ 25,253
Special Revenue:	
Local Aid	141,277
Lotteries	8,647
Capital Projects:	
General	101,290
Highway	239,927
Local Aid	62,391
Other	1,122
Internal Service Funds:	
Employees Workers Compensation	270,800
Employees Group Health Insurance	50,010

9. INDIVIDUAL FUND DEFICITS (CONTINUED):

The deficit in the General Fund reflects the accrual of liabilities for Medicaid claims at June 30, 1995, and for subsidies to transit authorities for operating deficits incurred but not yet funded. These liabilities will be paid in subsequent periods as the Legislature appropriates funds. The General Fund deficit has improved significantly and the Local Aid Fund has incurred a deficit due to legislation shifting payments of transit subsidies totaling \$116,000,000 from the General Fund to the Local Aid Fund. The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance claims of \$320,810,000. Funding of these deficits is dependent upon legislation actions to develop an actuarial funding plan. The deficits in the Lottery Fund reflect the impact of accruals, created essentially by timing differences, which reverse in the next fiscal year.

In the Capital Projects Funds, deficits reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequently, on August 1, 1995, August 9, 1995 and November 1, 1995, the Commonwealth issued \$26,100,000, \$200,000,000 and \$250,000,000, respectively, in general obligation bond related to the capital projects funds.

10. RETIREMENT SYSTEMS

Primary Government –

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the MBTA, and of counties, cities and towns (other than teachers) are covered by separate retirement systems. The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

Plan Descriptions –

State Employees' Retirement System (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The SERS is administered by the Commonwealth and is part of the reporting entity.

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity.

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10. RETIREMENT SYSTEMS (CONTINUED)

State – Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, and it is not part of the reporting entity.

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the 104 retirement systems of cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity.

Membership – Current membership in SERS, TRS and SBRS as of January 1, 1995 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>43,983</u>	<u>30,113</u>	<u>2,344</u>
Current employees:			
Vested	41,277	44,824	3,684
Non-vested	<u>41,652</u>	<u>21,545</u>	<u>2,229</u>
Subtotal	<u>82,929</u>	<u>66,369</u>	<u>5,913</u>
Total	<u>126,912</u>	<u>96,482</u>	<u>8,257</u>

The covered payroll for employees of the Commonwealth covered by SERS was \$2,992,428,000. The covered payroll for employees of the cities and towns covered by TRS is \$2,667,079,000. The covered payroll for employees of the City of Boston covered by SBRS is \$231,694,000. The covered payroll amounts approximate the employer payroll.

Benefit Provisions – Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification.

10. RETIREMENT SYSTEMS (CONTINUED)

Benefit Provisions (Continued) – Retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. Average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Funding Status and Progress – The amounts shown below as the pension benefit obligation are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The SERS, TRS and SBRS pension benefit obligations were computed as part of the actuarial valuation as of January 1, 1995. Significant actuarial assumptions used in the calculation of contribution requirements and pension benefit obligation include (a) rates of return on investments of present and future assets of 8% per year (b) projected salary increases of 6% per year (c) cost of living increases of 3% per year and (d) interest rate credited to the annuity savings fund of 5.5% per year.

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10. RETIREMENT SYSTEMS (CONTINUED)

Funding Status and Progress (Continued) – The total unfunded pension benefit obligation is as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Pension benefit obligation:					
Retirees and others currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$ 3,938	\$ 3,912	\$ 351	\$ 945	\$ 9,146
Current employees:					
Accumulated employee contributions including allocated interest	1,962	2,183	188		4,333
Commonwealth financed:					
Non-vested	583	297	31	87	998
Vested	<u>1,711</u>	<u>2,769</u>	<u>220</u>	<u>455</u>	<u>5,155</u>
Total pension benefit obligation	8,194	9,161	790	1,487	19,632
Net assets available for benefits, at market	<u>5,879</u>	<u>6,014</u>	<u>438</u>		<u>12,331</u>
Unfunded pension benefit obligations	<u>\$ 2,315</u>	<u>\$ 3,147</u>	<u>\$ 352</u>	<u>\$ 1,487</u>	<u>\$ 7,301</u>

Pension Benefit Obligation -

Contributions Required and Contributions Made – The retirement systems' funding policies have been established by statute. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired on or after January 1, 1979.

10. RETIREMENT SYSTEMS (CONTINUED)

Contributions Required and Contributions Made (Continued) – The Commonwealth’s contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions were originally established on a “pay-as-you-go” basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. This legislation requires funding on a current basis, including amortizing the unfunded liabilities and liabilities for future COLA payments to local systems, over 40 years.

This legislation also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary’s direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. This legislation further provides that if, during the first ten years of scheduled payments, the pension benefits paid exceed the scheduled contribution, the Commonwealth’s contribution shall equal these benefit payments.

The current legislatively approved funding schedule, based on the January 1, 1993 valuation, was filed with the Legislature on October 26, 1994. It required contributions by the Commonwealth of \$889,985,000 during the fiscal year ended June 30, 1995. Because total benefit payments exceeded this amount, no additional Commonwealth contribution was required.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they be not less than:

- Normal cost
- Interest on any unfunded prior service costs
- A provision for vested benefits when the total present value of vested benefits exceeds by 5% or more the value of the plan

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. However, the amortization of the accrued actuarial liability has been legislatively determined to be lower in the first years of the 40-year funding period. The cumulative difference between the total contributions required and the total contributions made is recorded as a liability in the General Long-term Obligations Account Group.

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10. RETIREMENT SYSTEMS (CONTINUED)

Contributions Required and Contributions Made (Continued) – Contributions required and made based on the minimum expenditure recognition required by GAAP are as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Minimum contribution requirement:					
Normal cost	\$ 414	\$ 334	\$ 31	\$ 48	\$ 827
Amortization of unfunded actuarial liability	12	70	12	31	125
Interest on unfunded actuarial liability	<u>91</u>	<u>111</u>	<u>11</u>	<u>67</u>	<u>280</u>
Total contributions required	<u>\$ 517</u>	<u>\$ 515</u>	<u>\$ 54</u>	<u>\$ 146</u>	<u>\$ 1,232</u>
Contributions made:					
By employees	\$ 219	\$ 183	\$ 14	\$ 0	\$ 416
% of covered payroll	7.31 %	6.85 %	6.09 %	N/A	N/A
By the Commonwealth	435	350	28	97	910
% of covered payroll	<u>14.53 %</u>	<u>13.12 %</u>	<u>12.21 %</u>	<u>N/A</u>	<u>N/A</u>
Total contributions made	<u>\$ 654</u>	<u>\$ 533</u>	<u>\$ 42</u>	<u>\$ 97</u>	<u>\$ 1,326</u>

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the pension benefit obligation.

During the year ended June 30, 1995, the Commonwealth's pension expenditure also included payments totaling \$21,881,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

10. RETIREMENT SYSTEMS (CONTINUED)

Trend Information – The following table presents the required three-year trend information:

	Year	% SERS	% TRS	% SBRS
Net assets available for benefits as a percentage of the pension benefit obligation applicable to employees:	1995	71.8	65.6	55.4
	1994	64.7	66.5	61.6
	1993	60.3	60.9	52.7
Unfunded pension benefit obligation as a percentage of annual covered payroll:	1995	77.3	118.0	152.2
	1994	101.9	116.7	126.5
	1993	114.4	135.8	161.9
Commonwealth's contributions to the pension plan as a percentage of annual covered payroll:	1995	14.5	13.1	12.2
	1994	13.8	12.8	12.9
	1993	14.3	12.5	13.2

Ten-year historical trend information for SERS, TRS and SBRS may be found on page 170 of the Commonwealth's Comprehensive Annual Financial Report. This report presents information about progress made in accumulating sufficient assets to pay benefits when due.

Certain information was not available for SERS, TRS and the Commonwealth's participation in SBRS. Total annual payroll for SERS, TRS and SBRS approximates annual covered payroll; however, actual annual total payroll amounts are not available this year, and have not been available in prior years. Annual covered payroll amounts were not available prior to 1990. Ten-year trend data of SBRS for revenues and expenditures is not available in their separately issued report.

Component Units -

Condensed Pension Information – Of the 27 discretely presented component units 22 maintain separate pension plans.

Postretirement Health Care and Life Insurance Benefits – In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing

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11. DEFERRED COMPENSATION PLAN

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the \$1,215,348,000 in the plan at June 30, 1995, \$817,929,000 was applicable to the Commonwealth; the remaining \$397,419,000 represents the assets of cities and towns participating in the plan. The assets and liabilities of the deferred compensation plan are included in Agency Funds at June 30, 1995.

12. LEASES

Primary Government –

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

At June 30, 1995, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$52,257,000. This liability is reported in the General Long-term Obligations Accounts Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totals approximately \$75,692,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements for varying terms. These agreements contain clauses which indicate that their continuation is subject to appropriation by the Legislature. Rental expense for the year ended June 30, 1995 was approximately \$119,838,000.

12. LEASES (CONTINUED)

Primary Government –

The following is a schedule of future minimum lease payments under non-cancelable leases for the Commonwealth as of June 30, 1995 (amounts in thousands):

Years Ending June 30	Capital Leases	Operating Leases
1996	\$ 19,147	\$ 95,751
1997	15,794	71,360
1998	10,506	60,609
1999	8,162	45,935
2000	2,980	34,416
2001 and thereafter	<u>3,705</u>	<u>20,750</u>
Total payments	60,294	<u>\$ 328,821</u>
Less: amount representing interest	<u>(8,037)</u>	
Present value of minimum lease payments	<u>\$ 52,257</u>	

University and College Fund – At June 30, 1995, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$19,422,000. Equipment acquired under capital leases and included in University and College Fund fixed assets totaled approximately \$32,265,000.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expense for the fiscal year ended June 30, 1995 was approximately \$16,309,000.

The following schedule summarizes future minimum payments under non-cancelable leases for the University and College Fund Type (amounts in thousands):

Years Ending June 30	Capital Leases	Operating Leases
1996	\$ 6,378	\$ 6,959
1997	5,349	5,589
1998	3,931	4,751
1999	3,018	3,769
2000	1,537	1,053
2001 and thereafter	<u>2,325</u>	<u>902</u>
Total payments	22,538	<u>\$ 23,023</u>
Less: amount representing interest	<u>3,116</u>	
Present value of minimum lease payments	<u>\$ 19,422</u>	

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12. LEASES (CONTINUED)

Component Units –

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. The leases expire through 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The Economic Development Authorities and the RTA's have operating leases for office space.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

Years Ending June 30	MBTA	RTAs	Economic Development Authorities
1996	\$ 12,068	\$ 5,700	\$ 2,763
1997	12,068		2,704
1998	13,669		2,523
1999	12,523		1,722
2000	12,909		1,177
2001 and thereafter	<u>163,305</u>	<u> </u>	<u>1,950</u>
Total payments	<u>\$ 226,542</u>	<u>\$ 5,700</u>	<u>\$ 12,839</u>

13. COMMITMENTS

Primary Government –

Governmental Funds – The Commonwealth is obligated to provide annual subsidies to the MBTA and regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1995, these subsidies totaled \$557,437,000 for the MBTA and \$50,193,000 for the RTA's. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1995, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$289,151,000 and due to RTA's of \$53,338,000. The cities and towns served by the MBTA and RTA's will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$212,889,000 is recorded at June 30, 1995, to account for these future reimbursements. The MBTA has also recorded net deferred charges of \$47,346,000 at June 30, 1995, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA and the Government Land Bank. Such assistance totaled \$30,605,454 in fiscal year 1995.

13. COMMITMENTS (CONTINUED)

At June 30, 1995, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,673,220,000 long-term and \$417,523,000 short-term. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in the University and College Fund. The guaranteed debt outstanding at June 30, 1995, was approximately \$254,542,000.

At June 30, 1995, the Commonwealth had commitments approaching \$1,081,048,285 for various construction projects. The majority relate to new construction funding for a major infrastructure program known as the Central Artery Project, in which federal participation is anticipated. The remainder relate to a wide range of building construction projects.

Pension Trust Funds – At June 30, 1995, PRIT had outstanding commitments to invest \$292,000,000 in real estate, \$40,162,000 in venture capital and \$170,953,000 in special equity investments.

University and College Fund Type – The UMass hospital has agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare program and the Commonwealth of Massachusetts under the Medicaid program that govern payments to the hospital for services rendered to patients covered by these programs and require the hospital to prepare and file settlement reports annually. Provisions have been made in the financial statements for the estimated final settlements.

Component Units -

As of June 30, 1995, the WPAT has agreed to provide loans of \$103,000,000 to various local government units to be funded with grant awards received through June 30, 1995.

Government Land Bank was committed to issuing \$10,540,000 of mortgages at June 30, 1995. The Bank, through the Emerging Technology Fund (ETF), was committed to issuing approximately \$15,097,500 of loan guarantees at June 30, 1995.

Massachusetts Housing Partnership Fund (MHP) has executed ten loan agreements with seven banks for an amount of \$179,958,333 pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act (Chapter 102 of the Acts of 1990). These bank loan agreements are the source of funding to borrowers through MHP.

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14. CONTINGENCIES

Primary Government -

Governmental Fund – The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance which are managed in its Internal Service Funds. A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$79,400,000. Of this amount, approximately \$64,400,000, which is expected to be paid during fiscal year 1996, is recorded in General Fund liabilities: approximately \$15,000,000 expected to be paid thereafter, is recorded as a liability in the General Long-Term Obligations Account Group. The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to the resources is generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. As of June 30, 1995, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets less the amount, ultimately expected to be reclaimed and paid, (\$2,994,000 for fiscal year 1995), are to be remitted to the General Fund each June 30, where it is included in miscellaneous revenue. Amounts remitted during fiscal year 1995 totaled approximately \$68,000,000. Since inception, approximately \$552,660,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

Internal Service Fund - It is the policy of the Commonwealth of Massachusetts to manage its risks internally and self-insure for claim settlements for risk of loss relating to workers' compensation and group health insurance in its Internal Service Fund. The Internal Service Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on actual claims paid during the year. All risk financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include amounts for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Workers' compensation and group health insurance costs for Commonwealth employees are recognized when losses are incurred. The Commonwealth's outstanding liability for such losses at June 30, 1995, including claims incurred but not reported, is estimated to be \$367,797,000.

14. CONTINGENCIES (CONTINUED)

The Commonwealth has assumed responsibility for worker's compensation claims for all contractors and subcontractors working on the Central Artery project. The Commonwealth's liability as of June 30, 1995 for such claims including incurred but not reported claims is estimated to be \$65,000,000. The Commonwealth has established reserves through a combination of bond proceeds and federal funds in its capital project funds to pay these liabilities.

Changes in the balance of claims and judgments liabilities during fiscal 1995 were as follows (amounts in thousands):

	Amount
Liability at beginning of year	\$ 668,109
Current year claims and changes in estimates	696,363
Claims payments	<u>764,114</u>
Liability at end of year	<u><u>\$ 600,358</u></u>

University and College Fund Type – The University of Massachusetts is contingently liable for \$20,500,000 of Massachusetts Health and Educational Facilities Authority revenue bonds, issued by the University of Massachusetts Foundation, Inc. In the event the Foundation fails to make any payment, the University will transfer any amounts unpaid and due to the Foundation.

Component Units -

The Massachusetts Convention Center Authority was involved in six lawsuits arising primarily as a result of the Phase II expansion and renovation of the Hynes Convention Center since January 1989. Three cases have been dismissed pursuant to a settlement of July 28, 1994 for an amount of \$15,500,000. The authority had retained security deposits of \$12,900,000 plus interest of \$2,600,000 against the cost of the settlement. An initial payment of \$12,500,000 was made in July 1994, and the remaining balance is payable in separate installments during fiscal year 1996 and 1997.

15. ACCOUNTING CHANGES

For the fiscal year ended June 30, 1995, the Commonwealth adopted Governmental Accounting Standard Board Statement No. 10 (GASB 10) "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues." GASB 10 establishes accounting and financial reporting standards for risk financing and insurance-related activities of governmental entities, including public entity risk pools.

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15. ACCOUNTING CHANGES (CONTINUED)

As a result of the adoption of GASB 10, and under the authority of Massachusetts General Laws Chapter 29, Section 5, certain risk financing activities, as discussed in Note 1.m, which have previously been reported within the Governmental Funds and General Long-Term Obligations Account Group are now recorded in the Internal Service Funds. The effect of adopting GASB 10 on the Commonwealth's Governmental Funds is shown as an equity transfer on the statement of revenues, expenditures and changes in fund balances. The effect on the General Long-Term Obligations Account Group is a reduction of the beginning of year liability for claims and judgments and a decrease in beginning retained earnings in the Internal Service Fund of \$341,620,000.

During fiscal 1995, the Commonwealth adopted the provisions of GASB No. 21, "Accounting for Escheat Property." This statement requires that escheat property generally to be reported in either an expendable trust fund or the fund to which the property ultimately escheats. As a result of the adoption of GASB 21, escheat property which was previously reported as an agency fund is now reported in an expendable trust fund. The effect of adopting GASB 21 did not have a material effect on the Commonwealth's general purpose financial statements.